



March 31, 2015

To the Honorable Board of Supervisors
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County) for the year ended June 30, 2014. We did not audit the financial statements of the Community Development Commission (CDC) (discretely presented component unit), Los Angeles County Children and Families First – Proposition 10 Commission (First 5 LA) (discretely presented component unit), and the Los Angeles County Employees Retirement Association (LACERA). Accordingly, this communication does not include the results of those audits. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated, May 15, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. Effective July 1, 2013, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 provides additional financial reporting guidance for deferred outflows of resources and deferred inflows of resources as detailed in Note 1 and Note 20 to the financial statements. We noted no transactions entered into by the County during the year, for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the County's financial statements were:

- Accrual and disclosure of claims liabilities.
- Unfunded actuarial accrued liability (UAAL), funded status and pension cost for the defined benefit pension plan.
- UAAL, funded status, other postemployment benefits (OPEB) cost, and net OPEB obligation for the OPEB plan.
- Contractual adjustments and bad debt allowances for patient accounts receivable.
- Depreciation estimates for capital assets and infrastructure assets.

Management's estimates were based on the following:

- The liability for workers' compensation and long-term disability claims were based on actuarial valuations. General liability, automobile and medical malpractice liability claims were based on historical loss and other data. The liability for other claims was determined by County Counsel and attorney judgment about the ultimate outcome of the claims.
- The UAAL and funded status for the defined benefit pension plan was based on an actuarial valuation as of June 30, 2013 and the pension cost was based on an actuarial valuation as of June 30, 2012 using actuarial assumptions adopted by LACERA.
- The UAAL, funded status, OPEB cost and net OPEB obligation were determined based on the OPEB health care actuarial valuation as of July 1, 2012 using actuarial assumptions adopted by LACERA and the OPEB long-term disability actuarial valuation as of July 1, 2013 using actuarial assumptions adopted by the County Board of Supervisors.
- Estimated contractual adjustments were based on prior cost report adjustments, previous regulatory settlements, and the potential future adjustments based on current laws and regulations. Estimated bad debt allowances for patient accounts receivable were based on historical loss levels.
- Useful lives for depreciable capital assets and infrastructure were determined by management based on the nature of the assets. The County uses the straight-line method of depreciation.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the County's basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The Pension Plan disclosures in Note 8 to the financial statements related to the plan's UAAL, funded status and annual pension cost.
- The OPEB disclosures in Note 9 to the financial statements related to UAAL, funded status, annual OPEB cost and net OPEB obligation.
- The Hospital and Other Program Revenues disclosures in Note 14 to the financial statements related to the hospital funding sources.
- The Risk Management disclosures in Note 18 to the financial statements related to claims liabilities.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no corrected misstatements as a result of our audit. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that were included in the management representation letter dated December 16, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and schedules of funding progress for the Pension Plan and OPEB, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is

appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introduction section and statistical section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Supervisors and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Macias Gini E O'Connell LEP". The signature is written in a cursive, flowing style.

Los Angeles, California

COUNTY OF LOS ANGELES
Summary of Uncorrected Misstatements - Government Wide
June 30, 2014

Description	Statement of Net Position		Statement of Activities	
	Debit	(Credit)	Debit	(Credit)
<u>Governmental Activities</u>				
1 Accounts Receivable Intergovernmental Revenue - State <i>To accrue the revenue related to the 2011 Realignment for Probation Department for the activities incurred in the last quarter of 2014</i>	\$ 14,233,187			\$ (14,233,187)
2 Expense - General Government Expense - Public Protection Expense - Education Estimated Liability for Litigation/Self Insurance <i>To accrue the estimated litigation liability based on the County Counsel letter dated December 15, 2014</i>			\$ 20,172,000	(900,000)
		\$ (19,000,000)		(272,000)
<u>Business-type Activities</u>				
3 Accounts Receivable - net Delivery System Reform Incentive Payment (DSRIP) Revenue <i>To adjust the understatement of DSRIP Revenue related to program revenue 2012-13</i>	1,885,241			(1,885,241)
4 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP Revenue related to program revenue 2013-14</i>	7,445,684			(7,445,684)
5 Services and Supplies Inventory <i>To adjust for discrepancies between the inventory balance in the general ledger and the inventory report.</i>		(206,918)	206,918	
6 Net Patient Service Revenue Current Portion of Long-term Liabilities <i>To recognize amount due to third party</i>		(1,314,364)	1,314,364	
	\$ 23,564,112	\$ (20,521,282)	\$ 21,693,282	\$ (24,736,112)

COUNTY OF LOS ANGELES
Summary of Uncorrected Misstatements - Fund Based
June 30, 2014

Description	Balance Sheet/ Statement of Net Position		Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balance/ Fund Net Position	
	Debit	(Credit)	Debit	(Credit)
<u>General Fund</u>				
1 Accounts Receivable Intergovernmental Revenue - State <i>To accrue the revenue related to the 2011 Realignment for Probation Department for the activities incurred in the last quarter of 2014</i>	\$ 14,233,187			\$ (14,233,187)
<u>Harbor-UCLA</u>				
2 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2012-13</i>	658,981			\$ (658,981)
3 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2013-14</i>	1,860,139			(1,860,139)
4 Inventory Service and Supplies <i>To adjust for discrepancies between the inventory balance in the general ledger and the inventory report</i>	3,329			(3,329)
5 Net Patient Service Revenue Current Portion of Long-term Liabilities <i>To recognize amount due to third party</i>		\$ (863,031)	\$ 863,031	
<u>LAC+USC</u>				
6 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2012-13</i>	733,623			(733,623)
7 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2013-14</i>	2,457,601			(2,457,601)

COUNTY OF LOS ANGELES
Summary of Uncorrected Misstatements - Fund Based (Continued)
June 30, 2014

Description	Balance Sheet/ Statement of Net Position		Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balance/ Fund Net Position	
	Debit	(Credit)	Debit	(Credit)
8 Services and Supplies Inventory <i>To adjust for discrepancies between the inventory balance in the general ledger and the inventory report</i>		(210,200)	210,200	
<u>Rancho Los Amigos</u>				
9 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2012-13</i>	70,377			(70,377)
10 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2013-14</i>	2,070,538			(2,070,538)
<u>Olive View -UCLA</u>				
11 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2012-13</i>	422,260			(422,260)
12 Net Patient Service Revenue Current Portion of Long-term Liabilities <i>To recognize amount due to third party</i>		\$ (451,333)	451,333	
13 Accounts Receivable - net DSRIP Revenue <i>To adjust the understatement of DSRIP revenue related to program revenue 2013-14</i>	1,057,406			(1,057,406)
14 Services and Supplies Inventory <i>To adjust for discrepancies between the inventory balance in the general ledger and the inventory report</i>		(47)	47	
	\$ 23,567,441	\$ (1,524,611)	\$ 1,524,611	\$ (23,567,441)